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FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

JUN - 1 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

In the Matter of	)	
	)	
Selected Issues Regarding the	)	CC Docket No. 96-45
Forward-Looking Economic	)	CC Docket No. 97-160
Cost Mechanism for	)	
Universal Service Support	)	DA 98-848
	)	

COMMENTS OF THE  
NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

The National Telephone Cooperative Association ("NTCA") submits the following comments in response to the Commission's *Public Notice*, DA 98-848, released on May 4, 1998, inviting comments in the above-captioned proceeding. In this docket, the Commission is examining issues related to the implementation of a cost proxy model to be used as a forward-looking mechanism for high cost support. NTCA is a national association of approximately 500 local exchange carriers ("LECs"). These LECs provide telecommunications services to end users and interexchange carriers throughout rural America.

NTCA's comments are limited to the Commission's discussion pertaining to the development of a nationwide revenue benchmark. NTCA recognizes that the Commission intends to use comments filed in this proceeding to develop a forward-looking methodology for non-rural carriers.<sup>1</sup> Nevertheless, NTCA is concerned that the decisions made for a

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<sup>1</sup> The Commission intends to issue a separate rulemaking to examine forward-looking mechanisms for rural LECs. See *Universal Service Order*, 12 FCC Rcd at 8924 para. 252.

mechanism for large LECs may have a significant effect on future Commission decisions affecting rural LECs and therefore welcomes the opportunity to comment on the Commission's questions concerning the benchmark.

## DISCUSSION

Pursuant to its decision to revisit the adopted revenue-based benchmark(s) and seek comment on its precise calculations,<sup>2</sup> the Commission has asked for comment, generally, on the benchmark level and the "amount of access revenues that should be included in the benchmark."<sup>3</sup> NTCA maintains that the nationwide revenue-per-line construct is flawed for several reasons and should not be based on revenues from access and discretionary services. Nationwide per-line revenues reflect urban revenue profiles, rather than those of rural areas with limited local calling scopes.<sup>4</sup> Additionally, the Commission underestimates the difficulty in matching appropriate historical revenues to the forward-looking, proxy-determined cost of providing universal service.<sup>5</sup>

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<sup>2</sup> *Id.* at para. 267.

<sup>3</sup> *See Public Notice*, DA 98-848, Released May 4, 1998 at 7-8.

<sup>4</sup> The Rural Telephone Coalition (RTC), comprised of the National Rural Telecom Association (NRTA), NTCA and the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), previously demonstrated that use of the benchmark as an offset against proxy model costs is inappropriate and will result in insufficient recovery. Nationwide revenues per line are simply not reflective of rural area calling scopes and rate structures. *See* RTC comments at 23-24, December 19, 1996.

<sup>5</sup> The RTC also explained that today's rural incumbent LEC (ILEC) rates were developed to recover each ILEC's actual historical or "embedded" investments and expenses under traditional public utility regulation. Because they are not designed to recover theoretical forward-looking costs, there is no reason to assume that the national average of revenues for access and discretionary services can "reasonably" be expected to offset proxy-estimated costs.

NTCA's concern regarding the use of this revenue-based benchmark is amplified by the fact that ILECs face such an uncertain "forward-looking environment." The Commission is still working to complete its implementation of a non-rural, proxy-based mechanism for use in determining cost, as indicated in the Public Notice released on May 4, 1998. No evidence has yet been provided to show that the proposed forward-looking models can accurately predict cost for rural companies, and further, access reform for rate-of-return companies remains pending.<sup>6</sup> Without an appropriate adjustment for changes in interstate access rates driven by competition, the Commission's goal of removing implicit support, and a forward-looking environment *that is still unfolding*, rural LECs may be unable to realize the nationwide average revenue anticipated in the benchmark.<sup>7</sup> The fact that rural "discretionary" service offerings vary so widely and can significantly differ from those offered in urban areas compounds NTCA's doubts that a benchmark calculation based on revenues from access and discretionary services can identify the level of high-cost support which Section 254 requires.<sup>8</sup>

The Commission's adopted Rural Transition Plan, which incorporates a specific and predictable cost methodology and support structure, provides a necessary measure of stability for

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Hence, there is no logical basis for subtracting non-forward-looking actual nationwide average revenues from local, access and discretionary services from forward looking costs to quantify high cost support. *Id.* at 24.

<sup>6</sup> The Commission intends to issue a separate rulemaking to examine access reform for rate of return LECs. *See Access Reform Order*, 12 FCC Rcd at 16127 para. 332.

<sup>7</sup> GVNW, Inc. made a similar argument in its comments, December 19, 1996, at 17.

<sup>8</sup> *See also* RTC Reply Comments, January 10, 1997, at 16.

rural customers during the industry's transition to a competitive market.<sup>9</sup> As it moves to consider the details of its universal service mechanism for small and rural companies, NTCA urges the Commission not to abandon its recognition of the dramatically different circumstances confronting rural companies that provide universal service to sparsely populated areas. Any benchmark that is adopted should be expressly conditioned to ensure that use of the benchmark in conjunction with whatever cost methodology is adopted yields support that meets the "sufficiency" and "comparability" standards of Section 254 of the Act. It cannot be assumed that a benchmark adopted for non-rural carriers will achieve the Act's goals or meet its standards for rural carriers and consumers in rural areas.

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<sup>9</sup> The RTC recently suggested that with the exception of the cap imposed in 1994 and unlawfully carried forward after passage of the Act, restrictions on support for acquired lines, portability rules that invite cream-skimming and other minor concerns, established universal service support as largely retained by the Commission's Rural Transition Plan embodies a specific and predictable cost methodology and support framework shaped by practical experience. See RTC comments May 15, 1998, at 7.

CERTIFICATE OF SERVICE

I, Gail C. Malloy, certify that a copy of the foregoing Further Comments of the National Telephone Cooperative Association in CC Docket No. 96-45/CC Docket No. 97-160 was served on this 1st day of June 1998, by first-class, U.S. Mail, postage prepaid, to the following persons on the attached list:

  
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